Consultant's Evaluation of DIVZ ETF

Prepared For TrueMark Investments LLC

Quant Pioneers, LLC Independent Consultant Since 2018

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ETF ASSESSMENT PROFILE for **DIVZ**

TrueShares Low Volatility Equity Income ETF

Overall Rating: 9

Category Ratings

Process and Fit	10
Timeliness	10
Safety	10
Valuation	10
Growth	7
Income Generation	10
Recent Performance	10
Extrinsic Factors	6

Key: Range for each category: 1 (worst) to 10 (best)

Nature of Consultant's Assessment

Quant Pioneers provides assessment profiles based upon quantitative and qualitative market and securities analyses. The overall rank is generated by eight category ranks: process and fit; timeliness; safety; valuation; growth; income generation; recent performance and exigent factors. The process-and-fit category first takes an in-depth approach to the relative strengths and weaknesses of the fund's processes with respect to abilities to adapt to different market, economic and geopolitical environments. Once that is determined, the focus of the analysis shifts to the disparate needs along the spectrum of investors since one size never fits all.

This report analyzes the TrueShares Low Volatility Equity Income ETF with ticker symbol **DIVZ** using this framework.

1. **ETF Objective**

DIVZ seeks to provide income, capital preservation, and capital appreciation through an actively managed, concentrated portfolio. Generally, the fund's portfolio will be comprised of 25 to 35 favorably valued companies with attractive dividends that the portfolio managers expect to grow over time. At the same time, **DIVZ** seeks to deliver both lower price volatility and drawdowns, when unavoidable, that are fewer in number and lower in magnitude than those incurred by the overall market. The high-conviction research process focuses on identifying high quality companies that are financially sound with strong management teams that fit the above criteria. This requires the fund's investment team to understand each company's strengths and weaknesses well enough to see beyond standard metrics and quantitatively generated data.

2. **Current Investment Environment**

The first six months of 2022 represented the sharpest first-half decline suffered by the S&P 500 Index since 1970. Virtually all negative factors that could potentially worry investors, in what began the year as a grossly overvalued market by historical standards, were in action.

These include:

- the huge spike in energy prices fueled primarily by Russia's Ukraine war;

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- general geopolitical unrest aggravating supply chain issues;
- greater-than-anticipated spikes in inflation;
- negative earnings guidance by some of America's largest companies;
- inflation "sticker shock" has consumers reducing discretionary purchases;
- fears of a recession bolstered by the belief
- a hawkish Fed raising rates;
- downward earnings revisions;
- declining GDP numbers confirming a technical recession;
- anticipated tax increases;
- fears of recession and not to miss the cyclical earnings season.

Since the first half ended, the market had a resurgence in July and the first week in August was unremarkable. One reason for this is that many market economists, but not all of course, have revised their recessionary forecasts for a soft landing. Employment numbers are still strong. The fixed income market appears to believe that the Fed will reverse course on monetary tightening in the near term.
With a number of moving parts in the economy, uncertainty in financial markets remains at elevated levels. The combination of uncertainty and higher discount rates is likely to lead to increased volatility going forward.

The month of July did see seedlings of rally but only time will tell if this unusual skew of outperformance is a pent-up demand or sticker shock. Markets very well may be oversold but there's nothing to confirm if this is more than a localized bottom. The next few months will be very critical to watch. Investors should consider the financial stability of companies and will need to look forward and think about economic variables and how they impact fundamentals.

3. Why actively managed ETFs in a market downturn and a potentially contracting economy?

Historically, S&P 500 index funds have beaten the majority of actively managed mutual funds using the traditional structure in most time periods. However, even these funds outperformed the S&P 500 significantly in the first years of the past two significant bear markets April 2000 – March 2001 and March 2008 – February 2009. In several published articles, I've detailed how actively managed funds underperform their ETF counterparts by about 250 basis points per year just on the basis of the more efficient management and operational structures along with tax efficiency.

The early months of the 2022 bear market have been no different. Active funds in many stock categories have mitigated losses during the bear market. The average annual return through June for active large-cap value funds was -9% compared with -17% for comparable passive value funds and -20% for the S&P 500 ETFs. **DIVZ** performed at the top of the class of the actively managed funds with a year-to-date return of 4.1% and a 12-month return of 6.6%.

4. Why Traditional Asset Allocation Solutions Have Not Worked Recently?–

The inverse correlation of bond-equity has historically prevailed in some decades but has been reversed in three ten-year periods. Nevertheless, this construct drives much of modern-day portfolio construction in attempts to provide income and lower overall portfolio volatility. However, empirical research has demonstrated repeatedly over time that this strategy does not work when the yield curve is inverted.

Another reason that bonds have historically acted as a buffer to equities in times of economic turmoil is because the Fed has often supported a slowing economy with lower rates. The problem, last faced by America in the 1970's, is the tricky combination of sudden spikes of inflation together with decreases in national productivity. Since the inflation problem was recognized first and unemployment is still low at this point, the path of least resistance is rising rates. It is a given that in the early and middle stages of a rising rate environment, fixed income fund prices will fall faster than yields-to-maturity of the underlying bonds will rise. The last time inflation was this high the Fed funds rate was well above 5%. Rising rates can cause problems in financial markets – bond prices are inversely correlated with interest rates and rising rates increase the discount rate for equities, which should lead to reduced valuations. Since equity valuations still haven't fallen very far from recent historical highs, it appears that market valuations may have yet to completely factor in the implications of a stagflation environment. This may be partially because the last time America was in such an environment, most of today's investment strategists and portfolio managers were in elementary school or had yet to be born.

Bonds have failed to provide diversification with the long-term rates falling below the short-term rates leading to yield-curve inversion also signaling economic slowdown. The graph below illustrates historical and current differences between the 10-year US Treasury bond yield and the 2-year US Treasury bond yield The red line now touching the bottom shows an inversion not experienced in more than 30 years.

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5. **Risk vs. Volatility vs. Uncertainty Explained**

Risk is the possibility of a permanent loss of capital. Volatility is the unpredictability both high and low around a series of outcomes. Using a conservative approach, volatility can be managed but only within constraints of sacrificing a significant amount of return when the market skyrockets.

This lesson has not customarily been taught in business schools, where volatility is almost universally used as a proxy for risk. Though this pedagogic assumption makes for easy teaching, it is dead wrong. Volatility is far from synonymous with risk. Popular formulas that equate the two terms lead students, investors, and CEOs astray. The importance of this distinction should be clearer in the following section on suitability. Time horizon determines the extent to which an investor can withstand temporary fluctuations due to price volatility. No investor wants to withstand a permanent loss in capital. For investors more concerned with capital preservation than capital appreciation, high-conviction active management that emphasizes a focus on quality companies with low volatility minimizes both major exposures.

6. Suitability

There is no single ETF that fits the needs of every customer's investment profile. In fact, standard customer risk profiles are over-generalizations. Using two dimensions, time horizon and risk tolerance to determine suitability, are gross over-simplifications. Determining future capital and income needs is a complicated, individualized, and dynamic process. Yet most wealth allocation models assume the best funds to fulfill long-term time horizon needs track market-weighted index funds. and income needs involves customer's resources and needs. A key assumption is that long-term investors should allocate a permanent portion of their portfolio to a core equity fund with a mandate to track the S&P 500 Index. For close to 100 years, that strategy has outperformed most others over a 20-year period. Most pension plans pursue this strategy. However, the markets are incredibly dynamic. There is no way of knowing when the past no longer is prelude to the future and when correlations will suddenly change from negative to positive just when your core position turns sharply negative.

Again, one size does not fit all. Given rampant inflation, the level of uncertainty in the market, and many unprecedented events in the global environment, investments in stock funds less correlated to the benchmark in negative markets need to be considered for certain classes of clients. Specifically, investors with a less-than-15-year time horizon and with potentially necessary withdrawal situations such as major health events should give strong consideration to taking 25% - 50% of core allocation into equity funds emphasizing safety and income over full participation in growth equity returns. Growth would still be half of the equation but with an income cushion and much lower participation in major core market drawdowns.

7. **How the DIVZ Investment Process Fits the Current Market Environment**

The first half of 2022 was characterized by inflection points and unexpectedly high changes in magnitude. The high spikes in inflation accompanied by Russia-led geopolitical crises and oil embargoes set off multitude of market consequences. This includes aggressive rate-hiking by the Fed and at least a technical recession as confirmed by two consecutive quarters of falling GDP data.

The cap-weighted S&P 500 and Nasdaq-100 both performed miserably in this environment:

Ticker	**ETF**	**YTD Return**
SPY	SPDR S&P 500 Trust	- 9.4%
SPLV	Invesco Nasdaq-100 QQQ Trust	-16.7%

ETF providers are aware that time periods such as this exist. Most major providers have “smart beta” index ETFs designed to capitalize on different market environments by focusing on a particular factor. These include growth, momentum, small cap, value, high yield, low volatility, and high quality. The first three factors obviously would not work in this type of economic whirlwind. This is why many market strategists and model ETF portfolios switched investors out of those factors and out of major cap-weighted indexes and into value, high dividend yield, low volatility, and high-quality funds.

Let's take a look at how those "smart beta" ETFs have fared thus far in 2022:

Ticker	ETF	Factor	YTD Return
QUAL	iShares MSCI USA Quality Factor	Quality	- 13.0%
SPLV	Invesco S&P 500 Low Volatility	Low Volatility	- 2.2%
VYM	Vanguard High Dividend Yield	Dividend Yield	- 4.1%
VTV	Vanguard Value ETF	Value	- 1.9%

Three of the four "smart beta" ETFs were good switch calls by the ETF strategists. Except for **QUAL,** the other factor ETFs all posted returns significantly superior to **SPY** even though those returns were still negative.

In contrast, **DIVZ,** the TrueShares Low Volatility Equity Income Fund, has returned **+4.4%** thus far this year, easily beating all of the smart beta factor ETFs.

It has done so through high-conviction active management focused on high quality companies that also have strong income and low volatility profiles. A key difference is that instead of using a handful of one-size-fits-all ratios to determine "quality", the **DIVZ** management team has taken the time to understand the stress and success points for each company in the portfolio and any other companies being considered for inclusion.

This differentiation goes beyond active vs. indexed. In fact, most US mutual fund and institutional money remain in actively managed funds with mandates to "track" the factor risks of benchmark indexes. This mandate quickly becomes akin to a strait-jacket that forces an active manager to own a hundred or more stocks to match the multi-factor risk profile of the benchmark index. That active management team cannot possibly know all the aspects of the companies they own as well as a high-conviction manager. They become "closet indexers" trying to beat the benchmark index at its own game, but they seldom do. Another unintended consequence is higher turnover because the index's factor risk profile changes each quarter and stocks that kept tracking at acceptable levels last quarter must be switched out not for investment reasons but for risk tracking reasons. A former manager of Fidelity Magellan publicly admitted this problem. The greater the institutional mandate and the higher the assets-under-management level of the fund, the harder it is to achieve positive alpha.

The conclusion is that for a highly volatile environment fraught with inflection points in economic indicators, geopolitical turbulence and unprecedented supply chain and workforce shortages, the combination of a high conviction strategy with mandates of low volatility and high income helped **DIVZ** outperform most non-leveraged and diversified alternatives in the first six-months of 2022. However, the ratings on our assessment profiles pertain to investing today, not on January 1 of this year. What we can say is that as long as market volatility, uncertainty of economic growth and geopolitical instability remain high, **DIVZ** will remain a strong fit for investors more concerned with capital preservation and current income than investors focusing solely on asset growth such as pension funds.

8. Timeliness

We measure timeliness for ETFs by looking at ValuEngine reports based upon top-down and bottom-up quantitative analyses. ValuEngine models have evolved over more than 20 years from models developed by four different Ivy League professors. The ValuEngine rating is calibrated on the models' aggregate expectation of price performance during the next six to twelve months. As of August 14, ValuEngine rated **DIVZ** 5 out of 5, its highest rating for relative outperformance.

9. Safety

The top three measures of safety are: portfolio beta, price volatility as measured by standard deviation, and position-weighted financial strength. The current beta of **DIVZ** is 0.59, signifying that its sensitivity to S&P 500 price movements is about 60%. By definition, an S&P 500 ETF has a beta of 1.00.

The annualized standard deviation of **DIVZ** is 14.9% as compared with 17.5% for **SPY.** From a ratio perspective, **DIVZ** is about 25% less volatile. Fundamentally, **DIVZ** is almost three times less highly leveraged than **SPY** with a Net Debt/Equity Ratio of 86.9 as compared with 263.5 for **SPY.**

10. Valuation

The portfolio management team of **DIVZ** presents themselves as valuation agnostic. This means that they do not select stocks specifically on the basis of valuation metrics.

However, by traditional metrics **DIVZ** is considerably undervalued as compared with **SPY.** Here is a summary:

- Price/Book Ratio: **DIVZ** 1.9; **SPY** 4.4
- Price/Earnings Ratio: **DIVZ** 14.6; **SPY** 18.4
- Price/Sales Ratio: **DIVZ** 1.5; **SPY** 3.0
- Price/Cash Flow Ratio: **DIVZ** 8.8; **SPY** 17.6

11. Income Generation

The current dividend yield of **DIVZ** is **4.3%.** Given that the word income is in its objective function, it is not surprising that its dividend yield is more than three times the 1.4% currently offered by **SPY.**

How does **DIVZ** stack up to other popular dividend-focused ETFs on yield? The top three as ranked by assets under management are:

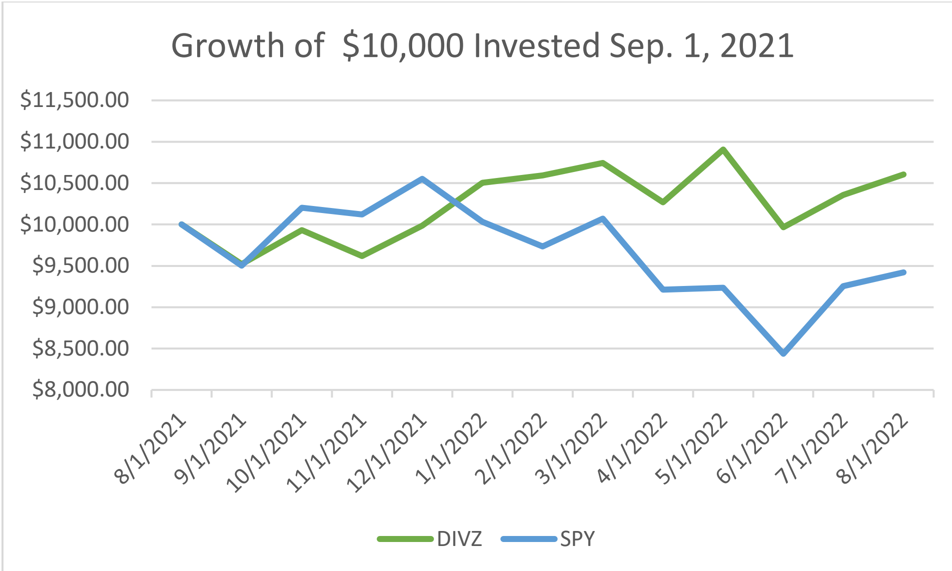
- **VYM** Vanguard High Yield ETF 3.0%
- **VIG** Vanguard Dividend Appreciation 1.8%
- **SCHD** Schwab US Dividend Equity 3.1%

Therefore, **DIVZ** yields quite a bit more than the three most popular yield-oriented funds.

12. Performance History

The current dividend yield of **DIVZ** is **4.3%.** Given that the word income is in its objective function, it is not surprising that its dividend yield is more than three times the 1.4% currently offered by **SPY.**

Looking at the past 12 months of performance, this graph showing the growth of $10,000 invested September 1, 2021, clearly illustrates the resilience of **DIVZ** in down months for the S&P 500. When the S&P 500 enjoyed sharp rises in September 2021 and July 2022, **DIVZ** rose in value but not quite as much as the index. However, its efficacy in capital preservation is illustrated in most of the other months.



The end result is that in a period where **SPY** had negative capital growth falling from $10,000 to $9,422, **DIVZ** gained 6% to grow the $10,000 to $10,603 with less price volatility. The difference in income for the period was approximately $4200 for **DIVZ** to $1450 for **SPY.** Taken together, the income cushion of **DIVZ** coupled with less volatile and more resilient returns in choppy markets make it a relatively safer investment than **SPY** while still providing price appreciation.

13. Extrinsic Factors

Extrinsic factors are ETF characteristics that are outside of the evaluation of its investment portfolio. These include:

Expense ratio – The expense ratio of **DIVZ** is 0.65%. The average expense ratio of active equity ETFs covered by ValuEngine is also 0.65% so this category is neither an advantage nor a disadvantage for **DIVZ**.

Adaptability – This is the ability to adjust to rapidly changing market environments. Since most indexed funds rebalance quarterly and active managers can make changes on a daily basis, this is an intrinsic advantage that requires hands-on research. This is why actively managed ETFs charge a higher fee in most cases as compared with index counterparts. When the switch from risk-on to risk-off is both powerful and sudden, waiting for the next quarter's rebalancing can be very costly.

Assets Under Management The current Assets Under Management (AUM) level for **DIVZ** is $64 Million. The median AUM level for actively managed equity ETFs is $51

Million. However, the average AUM for the same category is $335 Million with most of the assets clustered in the three largest funds, all institutionally oriented.

Average trading spread – The average trading spread of **DIVZ** is 0.07% of market price. The median average trading spread of active equity ETFs is also 0.07%. Those same top three actively managed funds have an average spread of 0.01%. Therefore, trading efficiency is not a strength of financial-advisor oriented actively managed funds in general and **DIVZ** is not an exception.

Liquidity - One thing every ETF investor and trader should know is that the liquidity of the ETF is a function of the liquidity of its underlying stocks, not its bid-ask spread. 100% of the stocks currently held by **DIVZ** are large cap US stocks of greater than $15 billion in Market Cap. Therefore, market makers can create or redeem new shares within a one-basis-point spread. For large trades, **DIVZ** is extremely liquid from a market maker's perspective.

Transparency – Many actively managed ETFs elected to use semi-transparent baskets and cloak their daily holdings. **DIVZ** provides 100% daily transparency allowing shareholders to be confident that they know exactly what they own. This eliminates any possibility of temporary deployment into securities that asset owners could consider questionable given the mandate of the fund.

SUMMARY

The TrueShares Low Volatility Equity Income ETF with ticker symbol **DIVZ** earned our second highest rating, 9 out of a possible 10. In particular, the ETF received the highest rating for six of the eight categories including: process and fit; timeliness; safety; valuation; income generation and recent performance. Its resilience in down markets and its timeliness in a market with above-average volatility makes it an especially appropriate choice for conservative investors.

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